2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

CANADA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production, and Employment:			
Nominal GDP 2/	608.1	644.7	705.2
Real Growth Rate (pct)	3.3	4.5	3.7
GDP by Sector (pct):			
Goods	33	33	33
Services	67	67	67
Agriculture	2	2	2
Government	20	20	21
Per Capita GDP (US$)	19,673	21,138	22,748
Total Labor Force (000s)	15,418	15,721	16,150
Unemployment Rate (pct)	8.3	7.6	6.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) 3/	-0.6	3.6	6.3
Consumer Price Inflation	0.9	1.7	2.8
Exchange Rate: (C$/US$) 4/	1.4831	1.4858	1.4723
Balance of Payments and Trade:			
Global Merchandise Exports	217.5	242.7	271.3
Exports to U.S.	181.7	208.2	230.6
Global Merchandise Imports	204.6	219.9	238.1
Imports from U.S.	157.6	167.8	181.0
Global Merchandise Trade Balance	12.9	22.8	33.2
Balance with U.S.	24.1	40.4	49.6
Current Account Balance/GDP (pct)	-1.8	-0.4	1.2
Net Public Debt 5/	390.9	388.2	383.4
Debt Service/GDP (pct) 5/	4.5	4.3	4.0
Federal Budget Surplus/GDP (pct)	0.4	0.3	1.3
Official Int'l Reserves 3/	23.4	28.6	30.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 2000 data is embassy projection unless otherwise noted.
2/ Exchange rate conversion causes distortions in actual level.

3/ Actual as of September 30, 2000.
4/ January to September 2000 average.
5/ Canadian government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that closely resembles the United States in its per capita output, market-oriented economic system, and pattern of production. The Canadian economy grew by 4.5 percent in 1999, eclipsing its 3.3 percent growth in 1998, as it rode the wave of a booming U.S. economy. In the first half of 2000, real GDP growth averaged 5.2 percent, but the pace is expected to slow in the second half of the year, resulting in average growth of around 4.5 percent for all of 2000. In 2001 output is forecast to ease to a more sustainable 3 – 3.5 percent. These growth projections assume that U.S. growth will subside to nearer three percent in 2001, as U.S. Federal Reserve Board interest rate increases in late 1999 and early 2000 take effect.

Growth in Canada's export sector should continue to be fueled by ongoing strength in the U.S. economy and Canada's weak dollar. Global economic recovery, particularly in East Asia and Latin America, will further boost Canadian export revenues. However, the combination of Canada's low dollar and upward pressure from record high petroleum prices has pushed Canada's inflation rate to the upper limit of the Bank of Canada's one to three percent target band. Consequently, Canada's central bank is on an inflation watch and could further increase interest rates in 2001, which would dampen consumer spending and business investment. Not unlike the global economy, the major risk to the growth projection for Canada is the inflationary impact of rising oil prices, which could choke off growth in consumer spending and business investment.

The close proximity and integrated manufacturing sectors of Canada and the United States have resulted in the largest bilateral merchandise trade relationship in the world. In 1999 total two-way trade in goods and services between the United States and Canada was roughly $450 billion, or well over $1 billion each day. This was more than U.S. trade with the rest of the Western Hemisphere, and almost equal to total U.S. goods and services trade with the entire 15-country European Union. The United States and Canada also share one of the world's largest bilateral direct investment relationships. In 1999 the stock of Canadian foreign direct investment in the United States, including investments from its holding companies in the Netherlands, was $90.4 billion. At the same time, U.S. foreign direct investment in Canada was $111.7 billion.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to maintain orderly trading conditions, but does not practice a policy of intervening to pursue exchange rate targets.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the United States, although it varies by province.

4. Debt Management Policies

The Canadian federal government recorded a $8.5 billion budgetary surplus in FY1999-2000 (April 1 – March 31), which was used to reduce the national debt. The paydown reflected the federal government's commitment to ongoing debt reduction and cut Canada's debt-to-GDP ratio to 58.9 percent from a peak of 71.2 percent four years earlier. Currently, the Canadian government projects the ratio to drop to 40 percent within the next four years. Canada can take pride in experiencing a larger decline in its debt-to-GDP ratio than any other country in the G-7. However, Canada's debt burden is still well above the G-7 average, ranking second highest after Italy. This is why the federal government remains committed to ongoing debt reduction initiatives. Such efforts will also serve to reduce Canada's debt servicing requirements, which currently absorb about 25 cents of every government revenue dollar.

5. Significant Barriers to U.S. Exports

The 1989 U.S.-Canada Free Trade Agreement and the 1994 North American Free Trade Agreement have eliminated most tariff and many nontariff trade barriers between the two countries. However, nontariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth. Canada maintains some restrictions on foreign investment and content in the so-called "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

In 1997 a WTO panel supported U.S. complaints against various Canadian measures that limited U.S. access to the Canadian publications market. In mid-1999 Canada replaced these measures with the Foreign Publishers Advertising Services Act, which would have made it a criminal offense, punishable by fines, for foreign-based publishers to supply advertising services directed at the Canadian market. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempted from the Act, as are foreign-controlled publications that contain 12 percent or less of advertising measured by revenue in a given issue, directed primarily at the Canadian market. Canada committed to increasing this percentage to 15 percent on December 3, 2000 and to 18 percent on June 3, 2002.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services. Recent regulatory changes have opened both long-distance and local telephone services to competition. A monopoly by Teleglobe Inc. on overseas calling ended in 1999. In September 1998 Canada eliminated third country routing restrictions for international traffic routed to and from Canada through the United States. Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities. In March 2000, AT&T and Sprint filed a complaint against Canada's contribution charges (subsidies for universal service) regime under Section 1377 of the Trade Act. The Canadian government has undertaken a review of the regime for its own purposes. The U.S. government is awaiting the outcome of that review before taking further action.

The United States and Canada signed a five-year Softwood Lumber Agreement (SLA) in the spring of 1996. The SLA limits Canadian softwood lumber exports from four provinces (Ontario, Quebec, Alberta and British Columbia) to the United States until the beginning of April 2001, capping duty-free exports at 14.7 billion board feet a year, which represents about one-third of the U.S. market. For the next 650,000 board feet, the Canadian government must charge $50 per thousand board feet. For any additional amount, the fee is $100 per thousand board feet. Both the U.S. and Canadian federal governments began consulting with stakeholders in the winter of 1999-2000 to determine their positions on what should follow the expiry of the SLA.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control.

The banking industry in Canada is governed by the federal Bank Act. The Bank Act and other financial services laws are mandated for review every five years. Amendments to the Bank Act in 1992 and 1997 removed some irritants of doing business in Canada for U.S. and other foreign banks. Foreign banks can now opt out of Canada Deposit Insurance, and as of February 1999, can set up branches. Two types of foreign bank branches are currently permitted: full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. $100,000), while lending branches are not allowed to take any deposits and can borrow only from other financial institutions. The purpose of lending branches is to provide new sources of funds to businesses and credit card users. Full-service branches and foreign bank subsidiaries are not allowed to own lending branches.

In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers. Life insurance companies are not generally allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated with, and distribute the products of, a property and casualty insurer. As in banking, a commercial presence is required to offer insurance and reinsurance services in Canada. However, insurance companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly-owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premiums.

Provincial legislation and liquor board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

The Canadian Special Import Measures Act (SIMA) governs the use of anti-dumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA. The Deputy Minister of Customs and Revenue Canada is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become an impediment to U.S. trade opportunity. In addition, customs reclassification of prepared food products to bring them under supply-managed categories is looming as a potential new problem area.

Transboundary environmental issues continue to be a major priority to U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on transboundary watersheds, flooding, air pollution, water use, and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the still-evolving NAFTA Commission on Environmental Cooperation. Several other provisions of the NAFTA also touch upon environmental regulation, including Chapter 7 on agriculture and sanitary and phytosanitary measures, and Chapter 11, which covers investment. Several arbitrations have been opened under provisions of Chapter 11, some of which concern NAFTA-party environmental regulation over investors from other NAFTA parties.

Section 301 Investigation of Canadian Wheat Board: The United States Trade Representative has initiated an investigation of certain trade practices of the Canadian Wheat Board (CWB) under section 301 of the Trade Act of 1974. This decision is in response to a petition filed by the North Dakota Wheat Commission alleging that the CWB engages in unreasonable trade practices that have resulted in economic harm to U.S. wheat growers. The allegations raise questions about how the CWB markets wheat in the United States and third country markets.

6. Export Subsidies Policies

The Canadian Egg Marketing Agency (CEMA) maintains an export subsidy for processed egg products. Under that regime, the domestic Canadian price for shell eggs is maintained at a level substantially above the world price. At the same time, producers are assessed a levy on all eggs sold and a portion of the levy is used to subsidize exports of eggs. This practice artificially increases Canadian exports of egg products. Provincial governments in Canada are believed to provide a variety of aids that support production and exports. Canada does not report many of these mechanisms in its WTO notifications. For instance, producers and processors may benefit from credit assistance programs and preferential energy supply arrangements.

With regard to Canada's policies on milk, the United States maintains that in light of the fact that there are now separate provincial export programs, Canada continues to provide export subsidies on dairy products due to ongoing price differentials between domestic and export milk prices. The United States will continue to press Canada to adhere to its export subsidy reductions as outlined in the WTO Agreement on Agriculture.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Bern Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. On December 18, 1997 the Canadian government committed itself to sign the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which deal with copyright and protection for performers and phonogram producers.

The most recent amendments to the Canadian Copyright Act were in 1997 and included, *inter alia*, "neighboring rights," which require broadcasters to pay royalties to recording artists and record producers from countries that are signatories of the Rome Convention (the United States is not). The 1997 legislation also establishes a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes to domestic artists and artists from countries with the same levy in place. In 1998 and again in 1999 the U.S. Trade Representative maintained Canada on its "Special 301" Watch List because USTR perceived Canada's procedures regarding reciprocal application of these two provisions as a violation of Canada's national treatment obligations under NAFTA. The Canadian government has broad authority to grant the benefits of the regime to other countries, although it has yet to announce a determination regarding the United States or to fully implement them.

In the late 1980s and early 1990s, Canada passed legislation to bring its patent drug regime into GATT compliance. Changes included 20-year patent protection in exchange for research and development (R&D) investment by major multinational pharmaceutical firms that equal 10 percent of the company's annual sales. The R&D investment is monitored by the Patented Medicine Prices Review Board (PMPRB). "Linkage" regulations were created in 1993 in an attempt to balance the Act and allow generic competitors to complete Health Canada regulatory requirements, as well as manufacture and stockpile patented products, before patent expiry ("early working"). The linkage regulations were also created to prevent generic companies from receiving regulatory approval from Health Canada until they demonstrate that their copy does not infringe upon existing patent rights. The linkage regulations allow a 24-month timeframe to determine patent infringement, during which period generic manufacturers are effectively prevented from "working" their product. Early in 2000 the WTO, in response to an EU challenge, ruled that manufacturers of generic drugs in Canada can "early work" their products but they are not allowed to stockpile them. In addition, in response to a U.S. challenge, the WTO ruled that Canada has to comply with its WTO TRIPS obligations and extend full 20-year patent protection on pharmaceutical patents filed before October 1, 1989. Canada appealed the ruling and lost. The Unites States expects Canada to announce by November 17, 2000 that it plans for timely compliance.

8. *Worker Rights*

Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised; workers in both the public and private sectors exercise their rights to organize and bargain collectively, although some essential public sector employees have limited collective bargaining rights that vary from province to province. Union membership in mid-2000 was 3.7 million people, representing 30.4 percent of Canada's workforce. There is no forced or compulsory labor practiced in Canada.

Generally, workers must be 17 years of age to work in an industry under federal jurisdiction, (e.g. railways, airlines and shipping). Provincial standards (covering more than 90 percent of the national workforce) vary, however, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16. Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards and those standards are respected in practice. Labor laws, rights and regulations of a particular jurisdiction apply universally to all employees and employers operating in that jurisdiction, no distinction is made between domestic Canadian and foreign-based employers and investors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		16,416
Total Manufacturing		44,023
Food & Kindred Products	4,983	
Chemicals & Allied Products	7,637	
Primary & Fabricated Metals	3,123	
Industrial Machinery and Equipment	3,269	
Electric & Electronic Equipment	2,455	
Transportation Equipment	9,965	
Other Manufacturing	12,592	
Wholesale Trade		8,982
Banking		1,977
Finance/Insurance/Real Estate		25,084
Services		6,438
Other Industries		8,785
TOTAL ALL INDUSTRIES		111,707

Source: U.S. Department of Commerce, Bureau of Economic Analysis.